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# ADDRESS

ON

## The Foreign Trade Outlook

TO THE

## Industrial Club of Chicago

BY

Eugene Meyer, Jr.

Managing Director of War Finance Corporation

CHICAGO

MARCH 26, 1920

Nov. 1. July 1933.

## THE FOREIGN TRADE OUTLOOK

A consideration of foreign trade in all its aspects would involve every phase of our existence. It is closely intertwined with our politics, our finance, our industry and commerce, our railroad and marine transportation and insurance. It influences labor, our educational system and social conditions generally, and is in turn influenced by every one of our human activities. A comprehensive treatment of the subject would involve all these considerations not alone in our country, but in all other parts of the world as well. Our foreign trade is the concrete expression not only of our exchange of goods, but to a great extent of our intellectual, personal and institutional relations with other peoples. It is, therefore, necessary for me to confine my discussion of the subject to special aspects. I shall be more than happy if I can present to you here tonight something of interest, out of my experience in contact with foreign trade as Managing Director of the War Finance Corporation during the past year. In addition, I shall, however, permit myself a few generalizations based upon that experience, which I submit merely as my personal expressions of opinion.

I shall begin by telling you how the War Finance Corporation was given authority by Congress to help foreign trade. During the war American industry became concentrated on the production of food supplies, raw materials, and manufactured goods for war purposes. Upon the signing of the armistice a great derangement was inevitable. To those who realized how vast was the volume of our exports for the use of the

armies and peoples in Europe, and who were aware that the financing was entirely a matter of United States Government loans authorized only for a limited period, the magnitude of the approaching problem was manifest. The Treasury sought to aid the situation by asking Congress for authority to amend the War Finance Corporation Act to permit it to make loans to American exporters and American bankers who finance them; this authority was the more willingly granted because it called for no new appropriation.

We are apt to forget what an unusual step Congress took when it authorized a Government institution to use a fund of one thousand million dollars for financing foreign trade. I had the privilege of presenting the matter to the Ways and Means Committee of the House and to the Committee on Finance of the Senate, and I should like to say that I think the Congress responded most sympathetically, not only to the picture of the needs of American industry, American labor, and American finance, but also to the appeal for the consideration of the needs of Europe. In testifying on the amendment I stated that

"a prompt restoration of international trade will enable Europe to restore its industry and employment of labor, and thus to hasten its political and social peace. Unemployment and hunger are the surest sources of social disorder. In extending credits at this time to foreign countries to enable our industries and theirs to resume normal activity promptly, I believe we would be making a most important contribution toward international peace and prosperity, and that the results arising would benefit alike the country extending the credits and the countries which receive them."

The authority to help foreign trade became effective on March 3, 1919, but it was by no means a simple task to get the machinery to function. The representatives of foreign governments with whom we had the opportunity to confer on the question showed little interest.

American manufacturers, exporters, and bankers were very reserved in their views and did not seem to visualize the problems that gradually were to become increasingly acute. Some of our most prominent bankers, following the slogan "Get the Government Out of Business," thought it had been a mistake for the Government to give authority to help the financing of export trade. Some of the men who were strongly against this temporary extension of Government functions are now proclaiming that the War Finance Corporation's authority does not go far enough, that it should assume a much greater part of the risk to American business and of the burdens of European needs.

With a view to getting a more intimate knowledge through an exchange of ideas with some of the responsible Government officials and financial authorities in Europe, I spent two weeks in Paris and ten days in London in the summer of 1919. In Paris the picture I got from the representatives of the many countries there assembled, was one of almost pathetic reliance on the ability of America to cure all the troubles of Europe. Europeans failed to realize either that there were limits to American possibilities of assistance, or that the cooperation of the governments and business of the European peoples themselves was necessary.

In England it was felt by some economists that a decline in exchange would be a good thing, because it would discourage imports and encourage exports. These people, in my opinion, ignored, or at least underestimated the ex-

tent to which the extreme demoralization in exchange, which has since occurred, affects the cost of living to a people that must subsist on imported food. The head of an important bank in London ventured to say that exchange would not go down, and that he expected very shortly to be lending money to America. This would indicate that all the ignorance on the subject is not confined to the United States. It is only fair to add that there is a certain natural jealousy in Europe of America's financial position. Europe had financed the world, including America, and contemplated with reluctance the steps which we proposed in order to help them, and was inclined to view them as measures which, even if not so designed, would nevertheless have the effect of transferring the financial center of the world from Europe to America.

In Paris and in London I suggested methods of creating international obligations in forms that would have been practicable and helpful, had the governments cooperated with the industries to create the proper securities, but the difficulties of the whole situation had not made themselves sufficiently apparent to make it seem expedient to the foreign governments to follow out the plan. Finding that Europe was loath to accept this idea, I proposed on my return to America that we list in our public markets, *under proper safeguards*, the internal loans of some of the principal European governments, or their industrial issues. These issues would have to be exempt from European taxation for American holders, as our investors could not afford to hold these securities and pay both American and foreign taxes. Stimulated by the decline in exchange, a considerable, though unorganized, market has gradually developed, and there is now, as we all know, an enormous investment and speculative interest in exchange and in the foreign

securities which carry with them an exchange speculation. This speculation is being carried on with reckless disregard of possible drastic foreign taxation and of currency readjustments. The plan of having official listings formally approved by the foreign governments was opposed at first by some American bankers, and by the time both the American banking interests and the foreign governments had changed their attitudes a considerable part of the funds that had been available earlier was diverted to other channels.

But not to expand too much on the details of the past, I shall sum up the record of the past year. We exported in 1919 more than ever before in our history; our excess of exports over imports reached new high levels, and on the whole, as far as the volume of our trade is concerned, we came through the difficulties better than might have been expected. This result was produced largely by Treasury loans to foreign governments to the extent of \$2,400,000,000; by furnishing dollar funds to foreign governments to the extent of \$737,000,000, to cover the expenditures of the United States Government for the maintenance expenses of our expeditionary forces; by the sale on credit to European nations to the extent of \$685,000,000 of our Government supplies; by credits amounting to \$100,000,000 given to Europe for relief. Furthermore, the deferment of interest to the extent of \$324,000,000, which would otherwise have been due to the United States Government, made a grand total of Government aid amounting to \$4,226,000,000. Besides this official aid the American public repurchased from Europe large amounts of American securities held abroad, the sale of which was stimulated by the decline in exchange. Our investment bankers financed large foreign

dollar loans, and our merchants and manufacturers gave credits in considerable amounts. These forms of assistance, public and private, sufficed to take care of our great export trade during 1919, so that the pressure for the War Finance Corporation's assistance did not become strong until exchange became materially depressed. During all this time the Directors of the War Finance Corporation held frequent conferences with foreign interests and with American merchants, manufacturers and bankers. The fundamental difficulty was that both the foreigners and the Americans had become accustomed to having their business financed by means of United States Government funds, and it was hard for them to realize that this method could not continue.

The War Finance Corporation was under pressure from all quarters, especially from its own desire to help the situation. It would have been easy to help more if we had stretched the letter of the law. All sorts of schemes were presented to shift the responsibility from the exporter and banker to the Government. Companies with limited capital sought unlimited credit. The Directors of the War Finance Corporation have stood firmly for the honest interpretation of the Act, and while no man can say with finality what constitutes "adequate security" in times of world upheaval, we have endeavored to follow a policy that our consciences could justify. I do not believe that we have been lacking in courage. I do not believe that a single sound and eligible proposition has been turned down.

The actual loans granted by the War Finance Corporation thus far have not been large. The total is about \$30,000,000. It was extended to various manufacturers and bankers that sent railroad equipment to Poland, elec-

trical and agricultural machinery to England, France, Italy, Belgium and Australia; food to Belgium and machinery for steel plants to France. But the work of the Corporation is not to be judged by the figures in the balance sheet. Most of our work consists in helping others to help themselves. In presenting the amendment to Congress I stated that it was

"designed to meet an unprecedented condition of the world's international trade, and to stimulate our bankers and our merchants to the greater courage and the prompter action that are necessary to meet the emergency. It is not designed to displace private enterprises or to put the Government permanently into the general banking business. The amendment is limited as to time and as to purpose."

It is with this idea in mind that we have been endeavoring to stimulate our bankers and our merchants. We are encouraging the formation of Edge Law corporations under the Federal Reserve Board and we are equally ready to help wherever bankers propose to organize under State laws for the financing of foreign trade. During the war many of the names of the industries which we helped never appeared on the books of the War Finance Corporation. I recall one loan of \$20,000,000 and one of \$15,000,000 which our Corporation agreed to make, if funds could not be obtained through other channels; but this assurance made it possible to obtain the money elsewhere. The finest letter the War Finance Corporation ever received in appreciation of its services came from the representatives of an industry that needed \$30,000,000, whose problems the

Directors of the War Finance Corporation succeeded in solving without making actual advances. However, I do not wish you to think that we confined our activities to the realm of psychology, or that in foreign trade we propose so to limit our action, but I wish to point out that the War Finance Corporation has been of value far in excess of the amount indicated by our loans.

I think that the world might have progressed toward a restoration of international trade relations much more rapidly than it has, but we must bear in mind that numerous factors weighed against it. The long-drawn-out treaty negotiations in Paris, the necessary concentration on the consideration of territorial and political questions and the discussions on the League of Nations took precedence over a practical consideration of important financial and commercial problems that lie at the root of many of the present difficulties. Moreover, very little has been done, or could have been done, by us in the absence of a treaty, in renewing relations with the enemy countries, and the newly constituted republics. Another great handicap was the complete elimination of Russia, which had played so large a part in European markets before the war, not only because it supplied its neighbors with foodstuffs and raw materials, but also because it consumed the finished products of the English, French and German manufacturing centers. This confusion of the commercial machinery was increased through sudden and violent fluctuations in exchange that were due in part to the absence of a fluid international security market. During the summer and early autumn European loans might have been placed with investors in America, but foreign governments refused to place them in the expectation of assistance from the United States Government, or in the hope of getting

better terms later. The opportunity passed, and the funds were diverted to other purposes.

In spite of these hindrances and many disappointments great progress has unquestionably been made, and one of the important factors in our progress was the educational value of wide-spread discussion of the problems. This general interest was greatly stimulated by the unprecedented action of the Congress in authorizing the use of a thousand million dollars by a Government institution to assist foreign trade—a sum equal to the nation's entire debt before the war—a step that indicated to the country the importance attached to the problem by the Treasury and the Congress. Another evidence of our new attitude toward foreign trade problems was the passing of the Edge Law, which is designed to create long term banking machinery which should develop into the permanent agencies for financing foreign trade. Some of our large industrial companies quickly adapted themselves to the new conditions and granted extensive long-term credits to foreign purchasers on a scale hitherto outside of their experience; but what is helping Europe to stabilize conditions most of all is the restoration of many of the normal trade channels that had been diverted or closed during the war. Food supplies have been made available from the Far East, from Australia, and from Argentina; and the increasing European crops may be counted upon as a great influence in ameliorating the difficulties.

As a result of this betterment of European conditions the immediate outlook in this country is one of diminishing exports of food and increasing exports to European countries of the raw materials needed for the reconstruction of industry, for manufacturing goods for their home consumption, and for their re-export trade. Chemicals, cotton, cop-



per and many forms of manufactured goods will be in greater demand. The resumption by European countries of trade with Germany, Poland and Czecho-Slovakia is under way, and the economic necessity of resuming trade with Russia at the earliest possible moment that political conditions permit is now thoroughly understood. The recent disturbance in Germany is disquieting, but it would appear remarkable that such disturbance has not come sooner, and the ability of Germany to maintain a reasonable degree of order under the difficult conditions prevailing during the last sixteen months argues in favor of a prompt restoration of order, provided steps are taken to determine the indemnities in a definite way and to make the German people feel that they have a stake in the future.

The War Finance Corporation and other organizations have under consideration numerous and important plans which will result in a continuation of export of supplies for Europe, and I believe that they will be effective in bringing about within the next few months a great improvement of commercial and industrial conditions in Europe. More co-operation from our merchants and bankers is needed, but the work is well on its way, and if Chicago and other interior points will cooperate the results will be more satisfactory and more speedily obtained. Chicago is already a great financial center, and is destined to even greater development in the near future. It cannot allow foreign commerce and banking to localize exclusively in the seaboard cities. Interior banks have both the ample resources and the men capable of developing foreign trade, if only they are willing to devote themselves to the subject with foresight. The War Finance Corporation regrets that there has been less active interest on the part of interior financial and commercial centers than was expected, and I take the

liberty now to urge you men to devote yourselves to the problem. The Directors of the War Finance Corporation are ready to work with you in any of your foreign interests.

It would be unwise to minimize the gravity and extent of the problems that immediately confront us. They justly claim our first attention. But it would be equally unwise to disregard the more distant future with the change in policies that it is bound to bring. If we are successful in our plans for the immediate problems, we shall make Europe, first, self-sustaining, and then our competitors in the markets of the world. We must, therefore, lose no time in studying and organizing for the trade of South America and the Far East, which must necessarily become the great markets for our manufactured goods in the future. Their demands and those of other prospective markets should be estimated in advance and a consistent portion of our producing capacity must be allotted to them. It will not suffice to starve the foreign demand when trade is brisk at home and then hope during periods of domestic dullness to flood the overseas market with American goods. This new trade must be cherished and developed if it is to prove a real support in future years.

The present unlimited demand for American products, regardless of price, is due to abnormal and temporary conditions. And as Europe restores her disordered industrial situation there will be a substitution of new and different demands that we must begin to consider and be prepared to meet. It is also necessary to bear in mind that vast, undeveloped portions of the world with fertile soil and cheap labor are entering upon a period of rapid development. They will fill the increased needs for food-stuffs and raw materials, and they will at the same time increase their consumption of finished products. England

and other countries are busily engaged in endeavoring to develop a supply of cotton within their own colonial possessions; and while I think that they are justified in this course we must not forget that our entire balance of trade from 1865 to 1915 is measured by our exports of cotton. Nor should we overlook the fact that China and India will be industrialized more rapidly than it is now possible to imagine, and that the market for our manufactured goods is bound to feel their competition in no uncertain way. Looking ahead we can not fail to see great changes looming before us. We can not tell their extent or ascertain their exact direction, but we Americans can face the future with confidence if we exercise intelligent foresight and a will to adjust ourselves to the inevitable course of economic events. And let us remember that failure to interpret these events is always costly. For the stuff that wars are made of is this—the belated use of force to alter conditions that wisdom did not foresee and forestall.

Where do we stand? Have we a plan and a purpose? Our leaders must educate themselves and the people to the meaning, the methods and the importance of foreign trade. We must develop a policy to meet new situations. The policy must be one which the people can understand and support. It must be a policy in the interest of the nation as a whole, based on the facts of our natural conditions, and founded upon the faith and ideals of the people. It must be broad enough to supply a general direction for our industry and finance. It must take cognizance of labor conditions and of social relations at home and abroad. It must be honest and generous toward others, but it must firmly protect American rights and American purposes. It must be based upon the prin-

ciple of "live and let live." It can not be narrowly selfish and succeed. But if it pursues an ideal not rooted in realities, it will no less certainly fail. As much harm can be done by trying to anticipate as by being too slow to respond to social progress. He works most soundly for the betterment of international relations who endeavors to build upon a basis of mutual interest and common advantage, but does not try unduly to accelerate changes that require growth and development in order to endure.

Not only do we need to develop policies, but we need to create organizations to carry them out. To what extent shall such organizations be governmental? To what extent shall they be private? And how may they be related advantageously to each other? Both Germany and England have advanced further than we in relating business to government in the conduct of foreign trade. The English Board of Trade is a highly centralized organization of business and government whose president sits as a member of the cabinet. Germany, through the system of kartels, had likewise highly centralized its business organizations and compelled their collaboration with the government. But this had been carried to such an irksome degree before the war that there was a great cry for freedom from bureaucratic control. These organizations were built up in England and Germany to conform to their own conditions. We should study them and decide what they contain of value to us, but we should not copy them. They are suited to countries with geographical and political conditions quite different from those obtaining in this country. In such matters let us heed our war experience. Our industrial organization differed radically from the European forms, because it was built up to suit our own country. Broadly

speaking, it aimed at centralized government direction and regulation but had decentralized and local administration. It was based fundamentally upon cooperation and not upon coercion, and it could have been successful in maintaining production in no other way. An over-centralized governmental control would be fatal in America because our great distances and our diversified geographical conditions make such a control unsuitable.

In the organization of our foreign trade the Webb-Pomerene Export Corporations Act and the Edge Bank Corporations Act constitute a nucleus from which with time and favoring circumstances we may build. The Edge Law banking corporations are of special interest, because they are based upon the sound theory that capital for long-term foreign credits and investment must be obtained from the investment markets. Such funds can not with safety to the country be made available through ordinary bank credits. They must represent the surplus savings of the people that are available for foreign purposes; and it must be distinctly understood that all capital so employed represents at this time capital withdrawn from our domestic needs. We must seek a proper balance in the relation between the two urgent calls, but for either or for both the only way is through public economy and private savings.

Our foreign trade organizations must have a continuity of policy. Like our naval, military and diplomatic policies, a trade policy must be continuously sustained in order to be effective and should not be subject to sudden changes with the advent of every new administration. In this way our merchants would learn to value foreign trade from a long-range point of view, and would be able to plan for more remote as well as imme-

diately returns. But before we can achieve favorable results in this direction, it will above all be essential to make public service more attractive to competent men. As long as the recognition and reward for this work remain as incommensurate with the effort as they now are, so long will all policies of adequate government cooperation remain an idle dream.

Both political parties should further the needs of the hour by declaring their policies and defining in their platforms their plans for the organization of foreign trade. Certain fundamental ideas seem basic to these policies. From recent experience America has learned to know that it wants ships of its own. It does not desire to do all the shipping for the world, but it demands a merchant marine and an industry capable of producing it. The country is willing to entertain a discussion of methods, but unless I am mistaken, it demands ships and the things that ships need. It wants marine insurance, and it wants fuel depots around the world. Further, America wants an integrated industry to the extent of insisting upon the development and maintenance of key industries within its own geographical limits. It does not want to hear again that any ambassador from any country is in a position to cable his government to embargo an insignificant amount of chemical materials for the purpose of throwing four million American workmen out of employment, as Bernstorff did in March, 1915. Great quantities of goods which we need, such as rubber, tin, silk, coffee, cocoa, and tea, can not be obtained in this country, but the essential things that we can produce at home the American people must and will have.

The materials that we can not ourselves produce, must be obtained through payment in exports suited to the needs

of other countries. The totals of these irreducible imports are large and increasing in amount. It is because we have these great needs that can be satisfied only outside of our country that foreign trade is a necessity. To enable us to fill these various needs of our own we must be in a position to fill the needs of others. That is the fundamental meaning of all trade. We must also make up our minds whether we believe in and want the open door, or whether we look forward to a world divided into spheres of economic influence. Whatever may be our wish, let us insist that our parties and our statesmen define their attitudes and their purposes with regard to foreign trade policies and organization.

We can not conduct an intelligent policy in our foreign relations without an adequate solution of internal economic and social problems. England's organization for foreign trade is magnificent. She has a general staff and a standing army in the form of a trained personnel in shipping, insurance and banking, an information service and relatively unlimited numbers of men acquainted with the people, the products, and the needs of the entire world. But back of these splendid trade organizations is a people torn by social discontent, which constantly hampers their plans, and largely deprives them of the effectiveness they would otherwise achieve.

I am not trying to stir up a spirit of economic domination for America, but a nation like an individual should feel the obligation of making the most of its powers. This is America's hour,—its hour of opportunity, its hour of realization, its hour of service to the world.

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